



Great American  
Bancorp, Inc.

Annual Report

2009

## TABLE OF CONTENTS

Independent Auditor's Report.....	2
Consolidated Balance Sheets .....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Stockholders' Equity.....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Shareholder Information .....	35
Directors and Officers.....	37

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

Board of Directors and Stockholders  
Great American Bancorp, Inc.  
Champaign, Illinois

We have audited the accompanying consolidated balance sheets of Great American Bancorp, Inc. as of December 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2009 and 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Great American Bancorp, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Champaign, Illinois  
March 1, 2010

McGladrey & Pullen, LLP is a member firm of RSM International –  
an affiliation of separate and independent legal entities.

# GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY

## Consolidated Balance Sheets

December 31, 2009 and 2008

(in thousands, except share data)

	<u>2009</u>	<u>2008</u>
<i>Assets</i>		
Cash and due from banks	\$ 4,183	\$ 4,433
Interest-bearing demand deposits	27,029	11,254
Cash and cash equivalents	<u>31,212</u>	<u>15,687</u>
Securities available for sale	736	979
Securities held to maturity (fair value approximates \$86 and \$106)	83	104
Federal Home Loan Bank stock, at cost	1,210	1,210
Loans held for sale	432	870
Loans, net of allowance for loan losses of \$933 and \$881	107,481	114,906
Premises and equipment, net	5,167	5,298
Goodwill	485	485
Real estate owned	140	900
Prepaid FDIC insurance premiums	522	--
Other assets	<u>2,071</u>	<u>2,112</u>
 Total assets	 <u>\$ 149,539</u>	 <u>\$ 142,551</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>Liabilities</i>		
<i>Deposits</i>		
Noninterest-bearing	\$ 15,192	\$ 14,792
Interest-bearing	107,628	95,774
Total deposits	<u>122,820</u>	<u>110,566</u>
Federal Home Loan Bank advances	9,000	14,000
Advances from borrowers for taxes and insurance	235	277
Other liabilities	<u>2,392</u>	<u>2,396</u>
 Total liabilities	 <u>134,447</u>	 <u>127,239</u>
 Commitments and contingencies (Notes 7, 11 and 12)		
<i>Stockholders' Equity</i>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, \$0.01 par value; 1,000,000 shares authorized and issued	10	10
Additional paid-in capital	3,310	3,310
Retained earnings	27,411	26,382
Unearned incentive plan shares	(55)	(55)
Accumulated other comprehensive income	79	89
Common stock in treasury, at cost (2009 – 487,800 shares; 2008 – 447,825 shares)	<u>(15,663)</u>	<u>(14,424)</u>
 Total stockholders' equity	 <u>15,092</u>	 <u>15,312</u>
 Total liabilities and stockholders' equity	 <u>\$ 149,539</u>	 <u>\$ 142,551</u>

The accompanying notes are an integral part of these consolidated financial statements.

# GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Income

Years Ended December 31, 2009 and 2008

(in thousands, except share data)

	<u>2009</u>	<u>2008</u>
Interest and Dividend Income		
Loans	\$ 7,068	\$ 7,680
Securities	38	55
Deposits with financial institutions and other	36	270
Total interest and dividend income	<u>7,142</u>	<u>8,005</u>
Interest Expense		
Deposits	1,077	1,793
Federal Home Loan Bank advances	580	686
Other	15	25
Total interest expense	<u>1,672</u>	<u>2,504</u>
Net Interest Income	5,470	5,501
Provision for Loan Losses	60	146
Net Interest Income After Provision for Loan Losses	<u>5,410</u>	<u>5,355</u>
Noninterest Income		
Insurance sales commissions	1,537	1,553
Customer service fees	893	913
Other service charges and fees	348	310
Net gain on sales of loans	868	189
Loan servicing fees	205	135
Other	80	131
Total noninterest income	<u>3,931</u>	<u>3,231</u>
Noninterest Expense		
Salaries and employee benefits	4,346	4,148
Occupancy expense	614	610
Equipment expense	504	525
Professional fees	233	284
Marketing expense	234	270
Printing and office supplies	210	228
Directors and committee fees	138	137
Amortization of mortgage servicing rights	112	41
Real estate owned expenses	71	2
FDIC deposit insurance expense	183	25
Other	593	580
Total noninterest expenses	<u>7,238</u>	<u>6,850</u>
Income Before Income Taxes	2,103	1,736
Income tax expenses	782	626
Net Income	<u>\$ 1,321</u>	<u>\$ 1,110</u>
Earnings per share:		
Basic	<u>\$ 2.53</u>	<u>\$ 1.93</u>
Diluted	<u>\$ 2.51</u>	<u>\$ 1.91</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2009 and 2008**

(in thousands, except share data)

	<i>Shares of Common Stock</i>	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Unearned Incentive Plan Shares</i>	<i>Accumulated Other Comprehensive Income (loss)</i>	<i>Treasury Stock</i>	<i>Total</i>
Balance, December 31, 2007	614,741	\$ 10	\$ 3,310	\$ 25,583	\$ (55)	\$ (182)	\$ (12,406)	\$ 16,260
Comprehensive Income								
Net income	--	--	--	1,110	--	--	--	1,110
Change in net unrealized gain (loss) on securities available for sale, net of tax effect	--	--	--	--	--	16	--	16
Change in net unrecognized postretirement obligation, net of tax effect	--	--	--	--	--	255	--	255
Total comprehensive income	--	--	--	--	--	--	--	1,381
Cash dividends declared (\$0.54 per share)	--	--	--	(311)	--	--	--	(311)
Purchase of treasury stock	(62,566)	--	--	--	--	--	(2,018)	(2,018)
Balance, December 31, 2008	552,175	\$ 10	\$ 3,310	\$ 26,382	\$ (55)	\$ 89	\$ (14,424)	\$ 15,312
Comprehensive Income								
Net income	--	--	--	1,321	--	--	--	1,321
Change in net unrealized gain on securities available for sale, net of tax effect	--	--	--	--	--	(2)	--	(2)
Change in net unrecognized postretirement obligation, net of tax effect	--	--	--	--	--	(8)	--	(8)
Total comprehensive income	--	--	--	--	--	--	--	1,311
Cash dividends declared (\$0.56 per share)	--	--	--	(292)	--	--	--	(292)
Purchase of treasury stock	(39,975)	--	--	--	--	--	(1,239)	(1,239)
<b>Balance, December 31, 2009</b>	<b>512,200</b>	<b>\$ 10</b>	<b>\$ 3,310</b>	<b>\$ 27,411</b>	<b>\$ (55)</b>	<b>\$ 79</b>	<b>\$ (15,663)</b>	<b>\$ 15,092</b>

The accompanying notes are an integral part of these consolidated financial statements.

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**  
(in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 1,321	\$ 1,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	60	146
Depreciation	367	393
Net amortization of securities	2	3
Amortization of deferred loan fees, net	69	3
Amortization of mortgage servicing rights	112	41
Deferred income tax benefit	(2)	(29)
Realized gain on sales of loans	(868)	(189)
Loans originated for sale	(45,937)	(12,380)
Proceeds from loan sales	46,964	12,034
Net loss on sales of real estate owned properties	28	--
Net gain on sales of premises and equipment	(2)	--
Changes in		
Prepaid and other assets	(305)	(242)
Other liabilities	(11)	(89)
Net cash provided by operating activities	<u>1,798</u>	<u>801</u>
Cash flows from investing activities:		
Principal payments received on mortgage-backed securities available-for-sale	237	469
Principal payments received on mortgage-backed securities held-to-maturity	21	16
Loan originations and principal collections, net	7,296	(718)
Proceeds from sales of real estate owned properties	732	--
Purchase of premises and equipment	(263)	(370)
Proceeds from sales of premises and equipment	29	--
Net cash provided by (used in) investing activities	<u>8,052</u>	<u>(603)</u>
Cash flows from financing activities:		
Net increase in demand deposits, money market, NOW and savings accounts	13,549	1,430
Net decrease in certificates of deposit	(1,295)	(1,667)
Proceeds from Federal Home Loan Bank advances	--	2,000
Repayment of Federal Home Loan Bank advances	(5,000)	(2,000)
Purchase of treasury stock	(1,239)	(2,018)
Dividends paid	(298)	(306)
Net decrease in advances from borrowers for taxes and insurance	(42)	(13)
Net cash provided by (used in) financing activities	<u>5,675</u>	<u>(2,574)</u>
Increase (decrease) in Cash and Cash Equivalents	15,525	(2,376)
Cash and Cash Equivalents, Beginning of Year	15,687	18,063
Cash and Cash Equivalents, End of Year	<u>\$ 31,212</u>	<u>\$ 15,687</u>
Supplemental cash flows information		
Other real estate acquired in settlement of loans	\$ --	\$ 900
Cash payments for:		
Interest paid on deposits and borrowed funds	\$ 1,696	\$ 2,512
Income taxes paid	643	603
Supplemental schedule of non-cash financing activities		
Dividends payable	\$ 73	\$ 79

The accompanying notes are an integral part of these consolidated financial statements.

# **GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**

## **Notes to Consolidated Financial Statements**

### **December 31, 2009 and 2008**

(Table dollar amounts in thousands, except share data)

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### *Principles of Consolidation*

The consolidated financial statements include the accounts of Great American Bancorp, Inc. (the “Company”) and First Federal Savings Bank of Champaign-Urbana, (the “Bank”), and the Bank’s wholly-owned subsidiary, Park Avenue Service Corporation (“PASC”). All significant intercompany balances and transactions have been eliminated in consolidation.

##### *Nature of Operations*

The Company is a thrift holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, the Bank. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Champaign County, Illinois and surrounding counties. The Bank also provides full service brokerage activities through a third-party broker-dealer and engages in the sale of tax deferred annuities. The revenue generated from brokerage services is dependent upon maintaining relationships with the current brokerage providers. The Company and Bank are subject to competition from other financial institutions. The Company and Bank are subject to the regulation of certain federal agencies and undergo periodic examinations by those regulatory authorities.

The Bank’s subsidiary, PASC, offers insurance services to customers located primarily in Illinois. GTPS Insurance Agency, (the “Agency”) a division of PASC, sells a variety of insurance products to both individuals and businesses, including life, health, auto, property and casualty insurance. The revenue generated by PASC is dependent upon maintaining relationships with the current insurance providers.

##### *Use of Estimates*

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, and postretirement benefit obligation.

In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties. Management estimates mortgage servicing rights taking into consideration changes in interest rates, current prepayment rates and expected future cash flows. Management obtains an actuarial calculation to estimate the postretirement benefit obligation.



### *Cash and Cash Equivalents*

For purposes of the consolidated statements of cash flows, cash and cash equivalents include amounts due from correspondent banks, cash on hand, balances of interest bearing demand deposits, federal funds sold, and Federal Home Loan Bank term deposits that mature within three months or less.

### *Securities*

Securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether management has the intent to sell the security and if it’s *not* “more likely than not” that management will have to sell the security before recovery of its amortized cost basis. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

### *Federal Home Loan Bank Stock*

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. This investment is accounted for at cost.

### *Loans Held for Sale*

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

## *Loans*

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in Champaign County, Illinois. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

## *Allowance for Loan Losses*

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment, unless such loans are the subject of a restructuring agreement.

### *Servicing*

Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is included in noninterest expense.

### *Off-Balance Sheet Credit Related Financial Instruments*

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

### *Premises and Equipment*

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Estimated lives are thirty-nine years for building and improvements, fifteen years to twenty-five years for leasehold improvements, and three years to seven years for furniture and equipment.

### *Goodwill*

The excess of cost over the fair value of assets acquired for transactions accounted for as a purchase is recorded as an asset by the Company. On a periodic basis, the Company reviews the goodwill for events or circumstances that may indicate a change in recoverability of the underlying basis. Management performs the annual impairment test on June 30<sup>th</sup>.

### *Real Estate Owned*

Real estate properties and other loan collateral acquired through, or in lieu of, loan foreclosure are recorded at the lower of principal amount of the loan outstanding at the time of acquisition or fair value, less cost to sell. After acquisition, valuations are periodically performed by management and the real estate and other loan collateral is carried at the lower of carrying amount or fair value less cost to sell. Subsequent write-downs estimated on the later valuations, gains or losses on sales, revenue and expenses from operations are included in the loss on foreclosed assets in operations.

### *Transfers of Financial Assets*

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

### *Income Taxes*

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax

effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns with its subsidiary.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued a standard for Accounting for Uncertainty in Income Taxes, which has been codified in FASB Accounting Standards Codification<sup>TM</sup> (“ASC”) 740. The standard clarifies the accounting for uncertainty in income taxes in financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. The standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority.

The standard became effective and was implemented in 2009 by the Company; however, Company management believes that the Company maintains no uncertain tax positions for tax reporting purposes and accordingly, no liability is required to be recorded.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

#### *Insurance Sales Commissions*

Insurance sales commissions are recognized at the time payment is received from customers billed directly by the Agency, net of an allowance for estimated policy cancellations. Contingent commissions and commissions on premiums billed directly by insurance companies are recorded at the time these commissions are received by the Agency. A contingent commission is a commission paid by an insurance company that is based on the overall profit and/or volume of business placed with that insurance company. Commissions on premiums billed by insurance companies primarily relate to a large number of small premium transactions, whereby the billing and policy insurance process is controlled entirely by the insurance company. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

### *Treasury Stock*

Treasury stock is stated at cost. Cost of treasury shares sold is determined by the first-in, first-out method.

### *Incentive Plan*

The purchase price of unearned shares owned by the incentive plan is reflected as a reduction of stockholders' equity. Compensation expense is based on the market price of the Company's stock on the date the shares are granted and is recorded over the vesting period. The difference between the aggregate purchase price and the fair value on the date granted of the shares earned is recorded as an adjustment to paid-in capital.

### *Stock Options*

The Company has a stock-based employee compensation plan, which is described more fully in Note 15. The Company recognizes compensation cost for stock options granted to employees. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized on a straight-line basis over the required service period for the entire award, generally defined as the vesting period.

### *Earnings Per Share*

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock awards and stock options, and are determined using the treasury stock method.

Earnings per common share have been computed based on the following:

	December 31,	
	2009	2008
Net income applicable to common stock	\$ 1,321	\$ 1,110
Average number of common shares outstanding	522,299	575,895
Effect of dilutive securities:		
Stock options	--	--
Unearned incentive plan shares	4,521	4,561
Average number of common shares outstanding used to calculate diluted earnings per common share	<u>526,820</u>	<u>580,456</u>

### *Reclassifications*

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on net income.

### *Comprehensive Income*

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale and unrecognized postretirement obligation, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Following are the components of accumulated other comprehensive income at December 31, 2009 and 2008:

	December 31,	
	2009	2008
Unrealized gain/(loss) on securities available for sale, net of tax effect	\$ 2	\$ 4
Net unrecognized postretirement obligation, net of tax effect	77	85
	<u>\$ 79</u>	<u>\$ 89</u>

### *Recent Accounting Pronouncements*

In June 2009, the FASB issued an accounting pronouncement establishing the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. This pronouncement was effective for financial statements issued for interim and annual periods ending after September 30, 2009. On the effective date, this pronouncement superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The Company adopted this new accounting pronouncement effective December 31, 2009. There was no impact on the consolidated financial statements from the adoption of this pronouncement.

In April 2009, the FASB issued three related accounting pronouncements to provide further application guidance and enhanced disclosures of fair value measurements and impairments of securities. These pronouncements provide guidance for making fair value measurements more consistent with existing accounting principles when the volume and level of activity for the asset or liability have significantly decreased. The pronouncements also enhance consistency in reporting by increasing the frequency of fair value disclosures and modifies existing general accounting standards for and disclosure of other-than-temporary impairment (“OTTI”) losses for impaired debt securities.

The fair value measurement guidance of these pronouncements reaffirms the need for entities to use judgment in determining if a formerly active market has become inactive and in determining fair values when markets have become inactive. Prior to these pronouncements, fair value disclosures for instruments covered by the pronouncements were required for annual statements only. These disclosures are now required in interim financial statements. The general standards of accounting for OTTI losses were changed to require the recognition of an OTTI loss in earnings only when an entity (1) intends to sell the debt security; (2) more likely than not will be required to sell the security before recovery of its amortized cost basis; or (3) does not expect to recover the entire amortized cost basis of the security. When an entity intends to sell or more likely than not will be required to sell a security, the entire OTTI loss must be recognized in earnings. In all other situations, only the portion of the OTTI losses representing the credit loss must be recognized in earnings, with the remaining portion being recognized in other comprehensive income, net of deferred taxes.

All three pronouncements were effective for interim and annual reports ending after June 15, 2009. The Company adopted these new accounting pronouncement effective December 31, 2009. The adoption of these provisions did not have an impact on the consolidated financial statements.

In December 2007, the FASB issued ASC 805, formerly FAS 141(R), “Business Combinations”, which significantly changed the financial accounting and reporting of business combination transactions. ASC 805 established principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805 is effective for acquisition dates in fiscal years beginning after December 15, 2008. The adoption of ASC 805 did not have an impact on the Company’s consolidated financial statements.

In May 2009, the FASB issued an accounting pronouncement establishing general standards of accounting for and disclosure of subsequent events. The pronouncement defines “recognized subsequent events” as those that give evidence of conditions that existed at the balance-sheet date and “non-recognized subsequent events” as those that provide evidence about conditions that arose after the balance-sheet date but prior to the issuance of the financial statements. Entities must recognize in the financial statements the effect of recognized subsequent events, but cannot recognize the effects in the financial statements of non-recognized subsequent events. This pronouncement also requires entities to disclose the date through which subsequent events have been evaluated. This pronouncement was effective for interim and annual periods ending after June 30, 2009. The Company adopted this pronouncement for the year ended December 31, 2009, and adoption did not have an impact on the consolidated financial statements.

#### *Pending Accounting Standards*

In June 2009, the FASB issued revised guidance for accounting for the transfers of financial assets. The guidance removes the concept of a qualifying special-purpose entity (QSPE). This



guidance also clarifies the requirements for isolation and limitations on portions of financial assets eligible for sale accounting. This guidance is effective for fiscal years beginning after November 15, 2009. The adoption of this guidance is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In August 2009, the FASB issued guidance clarifying the measurement of liabilities at fair value in the absence of observable market information. This guidance is effective for the Company beginning January 1, 2010. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

### *Subsequent Events*

The Company has evaluated subsequent events through March 1, 2010, the date on which the financial statements were issued.

### **Note 2: Restriction on Cash and Amounts Due from Banks**

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2009 and 2008, the reserve balance amounted to \$1,050,000.

### **Note 3: Securities**

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	\$ 732	\$ 4	\$ --	\$ 736
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	\$ 83	\$ 3	\$ --	\$ 86

December 31, 2008

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	\$ 971	\$ 8	\$ --	\$ 979
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	\$ 104	\$ 2	\$ --	\$ 106

The Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholders' equity at December 31, 2009.

Expected maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties, therefore, these securities are not segregated into maturity categories.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Residential mortgage-backed - agency	\$ 732	\$ 736	\$ 83	\$ 86

At December 31, 2009 and 2008, there were no securities with unrealized losses.

In the event of an unrealized loss, management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether management has the intent to sell the security and if it's *not* "more likely than not" that management will have to sell the security before recovery of its amortized cost basis.

**Note 4: Loans**

A summary of the balances of loans follows:

	December 31,	
	2009	2008
First mortgage loans		
Residential 1-4 family	\$ 50,215	\$ 60,217
Secured by other properties	29,382	27,953
Construction loans	4,953	3,680
	<hr/>	<hr/>
Total first mortgage loans	84,550	91,850
	<hr/>	<hr/>
Commercial	9,930	10,182
Consumer	13,959	13,776
	<hr/>	<hr/>
Total loans	108,439	115,808
	<hr/>	<hr/>
Less:		
Allowance for loan losses	(933)	(881)
Net deferred loan fees	(25)	(21)
	<hr/>	<hr/>
Net loans	\$ 107,481	\$ 114,906

An analysis of the allowance for loan losses follows:

	Years Ended December 31,	
	2009	2008
Balance at beginning of year	\$ 881	\$ 953
Provision for loan losses	60	146
Loans charged off	(9)	(220)
Recoveries of loans previously charged-off	1	2
	<hr/>	<hr/>
Balance at end of year	\$ 933	\$ 881

The following is a summary of information pertaining to past due and non-accrual loans:

	December 31,	
	2009	2008
Total non-accrual loans	\$ 83	\$ --
Total loans past-due ninety days or more and still accruing	\$ 314	\$ 331

There were no loans classified as impaired at December 31, 2009 or 2008.

#### **Note 5: Servicing**

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately \$71,646,000 and \$44,919,000 at December 31, 2009 and December 31, 2008, respectively.

The aggregate carrying value of capitalized mortgage servicing rights approximated fair value at December 31, 2009 and 2008 and totaled \$236,000 and \$70,000, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$138,000 and \$523,000 at December 31, 2009 and 2008, respectively.

#### **Note 6: Premises and Equipment**

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31,	
	2009	2008
Land	\$ 1,545	\$ 1,545
Buildings and improvements	5,692	5,656
Leasehold improvements	571	571
Equipment	3,795	3,736
	<b>11,603</b>	11,508
Accumulated depreciation	<b>(6,436)</b>	(6,210)
Net premises and equipment	<b>\$ 5,167</b>	<b>\$ 5,298</b>

Depreciation expense for the years ended December 31, 2009 and 2008 amounted to \$367,000 and \$393,000, respectively.

**Note 7: Leases**

The Company leases the land for one branch office. This lease is a twenty-five year operating lease which expires in November 2019, with three five-year options with escalating rental payments. Rental expense for this lease was \$40,000 for both years ended December 31, 2009 and 2008.

Future minimum lease payments under the remaining operating lease are as follows:

	Lease Payments
2010	\$ 45
2011	45
2012	45
2013	45
2014	45
Thereafter	246
	<hr/>
Total	\$ 471
	<hr/> <hr/>

**Note 8: Deposits**

Time deposits in denominations of \$100,000 or more were \$9,920,000 on December 31, 2009 and \$9,369,000 on December 31, 2008.

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	\$ 28,090
2011	4,354
2012	1,616
2013	755
2014	--
Thereafter	--
	<hr/>
	\$ 34,815
	<hr/> <hr/>

**Note 9: Federal Home Loan Bank Advances**

Federal Home Loan Bank advances are at fixed rates, (3.18% to 5.17% at December 31, 2009) and mature at various dates through October 2016. Federal Home Loan Bank advances are secured by mortgage loans totaling \$60,463,000 at December 31, 2009. Advances are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at December 31, 2009, are:

2010	\$ 3,000
2011	2,000
2012	--
2013	--
2014	--
Thereafter	4,000
	<u>\$ 9,000</u>

**Note 10: Income Taxes**

Allocation of federal and state income taxes between current and deferred portions is as follows:

	<u>Years Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Current tax provision:		
Federal	\$ 705	\$ 605
State	79	50
	<u>784</u>	<u>655</u>
Deferred tax benefit:		
Federal	(2)	(22)
State	--	(7)
	<u>(2)</u>	<u>(29)</u>
Income tax expense	<u>\$ 782</u>	<u>\$ 626</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	<u>Years Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Computed at the statutory rate (34%)	\$ 715	\$ 590
Increase (decrease) resulting from		
State income taxes	52	28
Other	15	8
Actual tax expense	<u>\$ 782</u>	<u>\$ 626</u>

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31,	
	2009	2008
Deferred tax assets		
Allowance for loan losses	\$ 362	\$ 368
Deferred compensation	292	284
Postretirement benefit obligation	298	261
Reserve for loss on unfunded commitments	70	93
Deferred insurance agency commissions	5	9
Deferred loan fees	9	7
Other	12	--
	<b>1,048</b>	<b>1,022</b>
Deferred tax liabilities		
Federal Home Loan Bank stock	(147)	(147)
Depreciation	(412)	(420)
Mortgage servicing rights	(92)	(27)
Prepaid expenses	(62)	(78)
Unrealized gains on securities available for sale	(2)	(4)
Other	--	(21)
	<b>(715)</b>	<b>(697)</b>
Net deferred tax asset	<b>\$ 333</b>	<b>\$ 325</b>

Retained earnings include approximately \$4,300,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of December 31, 1987 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$1,669,000.

## **Note 11: Off-Balance Sheet Activities**

### *Credit-Related Financial Instruments*

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2009 and 2008, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	<b>2009</b>	2008
Commitments to grant loans	\$ <b>3,536</b>	\$ 5,985
Unfunded commitments under lines of credit	<b>9,089</b>	10,204
Standby letters of credit	<b>353</b>	273

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Loan commitments at fixed rates of interest amounted to \$786,000 and \$4,290,000 at December 31, 2009 and 2008, respectively, with the remainder at floating market rates. Mortgage loans in the process of origination are included in commitments to extend credit and represent amounts that the Bank plans to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market. Total mortgage loans held for sale amounted to \$432,000 and \$870,000 at December 31, 2009 and 2008, respectively.

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. Total fixed rate unfunded lines of credit were \$1,116,000 and \$1,473,000 at December 31, 2009 and 2008, respectively.

Standby letters-of-credit are conditional lending commitments issued by the Company to guarantee performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments. At December 31, 2009 and 2008, the Company's deferred revenue under standby letters of credit was approximately \$3,000 and \$2,000, respectively.



### *Other Credit Risks*

The Company has a concentration of funds on deposit with the Federal Reserve Bank totaling \$22,432,000 and \$2,460,000 at December 31, 2009 and 2008, respectively. The Company also has a concentration of funds on deposit with the Federal Home Loan Bank totaling \$5,673,000 and \$11,254,000 at December 31, 2009 and 2008, respectively.

### **Note 12: Legal Contingencies**

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

### **Note 13: Minimum Regulatory Capital Requirements**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2009 and 2008 are also presented in the table.

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2009:</b>						
Total Capital to Risk Weighted Assets	\$ 14,245	16.5%	\$ 6,926	8.0%	\$ 8,658	10.0%
Tier 1 Capital to Risk Weighted Assets	13,312	15.4	3,463	4.0	5,195	6.0
Tier 1 Capital to Adjusted Total Assets	13,312	9.0	5,934	4.0	7,418	5.0
Tangible Capital to Adjusted Total Assets	13,312	9.0	2,225	1.5		N/A

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2008:</b>						
Total Capital to Risk Weighted Assets	\$ 14,715	16.0%	\$ 7,359	8.0%	\$ 9,199	10.0%
Tier 1 Capital to Risk Weighted Assets	13,834	15.0	3,680	4.0	5,519	6.0
Tier 1 Capital to Adjusted Total Assets	13,834	9.8	5,667	4.0	7,084	5.0
Tangible Capital to Adjusted Total Assets	13,834	9.8	2,125	1.5		N/A

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2009, the Bank had no retained earnings available for dividend declaration without prior regulatory approval.

## **Note 14: Employee Benefit Plans**

### *KSOP Plan*

The Company has a Savings and Employee Stock Ownership Plan ("KSOP") that covers substantially all Company employees. The plan contains 401(k) features that qualify the plan under Section 401(a) of the Internal Revenue Code and allows employees to contribute up to 75% of their salary on a pretax or after tax basis. The Company then makes a matching contribution of 100% on the first 3% of an employee's contribution and 50% on the next 2% of an employee's contribution. The Company also contributes an amount equal to 3% of each eligible participant's salary, even if an employee elects not to defer any of their own salary into the plan ("safe harbor contribution"). The Company can also elect to contribute discretionary amounts at any time. Each participant may direct the investment of their own contributions and the Company's contributions to a variety of mutual funds offered and maintained by the trustee of the plan, including a stock fund of the Company (the "employer stock fund"). The Company matching contributions, safe harbor contributions, and any discretionary contributions are initially invested in the employer stock fund.

At December 31, 2009 and 2008, 130,317 and 133,731 shares of the Company's stock were owned by the plan. The cost of the plan is borne by the Company through contributions to the KSOP trust in amounts determined by the Board of Directors. The Company's expense for the plan was \$282,000 for 2009 and \$221,000 for 2008.

In the event a terminated plan participant desires to sell shares of Company stock, the Company may be required to purchase the shares from the participant at the fair market value. At December 31, 2009, all 130,317 shares in the plan have been allocated to plan participants. The fair market value of those shares totaled approximately \$4,105,000 as of December 31, 2009.

### *Deferred Compensation Plan*

The Company also sponsors a deferred compensation plan for participating directors for the deferral of director fees. The interest accrued on the deferred compensation liability for the years ended December 31, 2009 and 2008 was \$15,000 and \$25,000, respectively. The deferred compensation liability was \$752,000 at December 31, 2009 and \$732,000 at December 31, 2008.

## **Note 15: Stock Compensation Plans**

The Company has a stock-based compensation program which provides for the granting of stock of the Company as stock awards and options to purchase stock of the Company (the "Incentive Plan").

The Incentive Plan covers key employees and directors and is authorized to acquire and grant as stock awards 82,110 shares of the Company's common stock. Participants in the Incentive Plan vest at a rate of 20 percent per year commencing one year after the date such shares are granted. In the event of a change in control or death or disability, all unvested stock awards would vest immediately.

As of December 31, 2009 and 2008, there were 3,829 shares available for future stock awards. During 2009 and 2008, there were no shares representing stock awards earned by participants and there was no compensation expense relating to stock awards.

Under the Company's incentive stock option plan, the Company grants directors, selected executives and other key employees stock option awards which vest at a rate of 20 percent per year commencing one year after the date the shares are granted. The plan provides that in the event of a change in control or death or disability, all unvested options will be immediately exercisable. The Company authorized the grant of options for up to 205,275 shares of the Company's common stock. As of December 31, 2009, there were 23,574 shares available to be granted. The exercise price of each option, which has a 10-year life, was equal to the market price of the Company's stock on the date of grant; therefore, no compensation expense was recognized.

At December 31, 2009 and 2008, there were no options outstanding and there was also no options exercised during 2009 or 2008.

#### **Note 16: Postretirement Plan**

The Company has an unfunded noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time.

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and health care cost follows:

	<u>2009</u>	<u>2008</u>
Change in projected benefit obligation		
Beginning of year	\$ 671	\$ 946
Service cost	54	83
Interest cost	40	56
Actuarial (gain) loss	15	(402)
Benefits paid (included in salaries and benefits)	(13)	(12)
End of year	<u>\$ 767</u>	<u>\$ 671</u>
At December 31,		
Fair value of plan assets	\$ --	\$ --
Benefit obligation	<u>(767)</u>	<u>(671)</u>
Funded status at end of year	<u>\$ (767)</u>	<u>\$ (671)</u>

	<u>2009</u>	2008
Amounts recognized on balance sheet consist of:		
Accrued liability	\$ (767)	\$ (671)
Unrecognized net actuarial (gain) loss, net of tax	\$ (101)	\$ (115)
Unrecognized transition obligation, net of tax	\$ 24	\$ 30

The Company's assumptions used to determine the benefit obligation and benefit cost were:

	<u>2009</u>	2008
Discount rate	<b>6.00%</b>	6.00%
Medical trend rate	<b>7.50%</b>	7.50%
Ultimate medical trend rate	<b>4.50%</b>	4.50%

	<u>2009</u>	2008
Components of net periodic benefit cost		
Service cost	\$ 54	\$ 83
Interest cost	40	56
Amortization of transition obligation	8	8
Amortization of net loss	(6)	7
Net periodic benefit cost (included in salaries and benefits)	<u>\$ 96</u>	<u>\$ 154</u>

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed to be 7.50% for 2009 and 2008. The rate was assumed to decrease gradually to 4.50% by the year 2013 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost components	\$ 26	\$ (19)
Effect on postretirement benefit obligation	172	(132)

At December 31, 2009, the projected benefits to be paid are as follows:

2010	\$	13
2011		14
2012		14
2013		27
2014		33
2015-2019		186

For the year ended December 31, 2010, the projected net periodic benefit cost is \$105,000.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D.

In accordance with ASC 715, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, the Company has not reflected the effects of the Act on the measurements of plan benefit obligations and periodic benefit costs and accompanying notes. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, may require the Company to change previously reported information.

#### **Note 17: Related Party Transactions**

At December 31, 2009 and 2008, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$1,950,000 and \$1,938,000, respectively.

In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

#### **Note 18: Fair Value Measurements**

In September 2006, the FASB issued authoritative guidance for fair value measurement which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The fair value standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standard requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or

liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the standard establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available for sale (recurring): The fair value of the Company's securities available for sale are determined using Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively.

Loans held for sale (nonrecurring): Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies loans subjected to nonrecurring fair value adjustments as Level 2.

Goodwill (non-recurring): On an annual basis, an implied fair value of goodwill is measured for the Company, in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination.

Real estate owned (non-recurring): Real estate owned properties are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

## Assets and Liabilities at Fair Value on a Recurring Basis

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

December 31, 2009				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Residential mortgage-backed securities – agency, available for sale	\$ 736	\$ --	\$ 736	\$ --
December 31, 2008				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Residential mortgage-backed securities – agency, available for sale	\$ 979	\$ --	\$ 979	\$ --

## Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

December 31, 2009				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans held for sale	\$ 432	\$ --	\$ 432	\$ --
Goodwill	485	--	--	485
Real estate owned	140	--	--	140



December 31, 2008

	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans held for sale	\$ 870	\$ --	\$ 870	\$ --
Goodwill	485	--	--	485
Real estate owned	900	--	--	900

### Note 19: Disclosures about Fair Values of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments. Fair value is determined under the framework discussed in note 18. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 31,212	\$ 31,212	\$ 15,687	\$ 15,687
Securities available for sale	736	736	979	979
Securities held to maturity	83	86	104	106
Loans held for sale	432	432	870	870
Loans, net of allowance for loan losses	107,481	110,545	114,906	120,615
Federal Home Loan Bank stock	1,210	1,210	1,210	1,210
Interest receivable	589	589	560	560
Financial liabilities				
Deposits	122,820	122,971	110,566	110,841
Federal Home Loan Bank advances	9,000	9,877	14,000	14,820
Advances from borrowers for taxes and insurance	235	235	277	277
Interest payable	37	37	61	61

	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	--	--	--	--
Letters of credit	--	--	--	--
Lines of credit	--	--	--	--

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

*Cash and Cash Equivalents and Federal Home Loan Bank Stock* -- The carrying amount approximates fair value.

*Securities Available for Sale* -- The fair value of the Company's securities available for sale are determined using Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively.

*Securities Held to Maturity* -- Fair values equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities.

*Loans Held for Sale* -- Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies loans subjected to nonrecurring fair value adjustments as Level 2.

*Loans* -- The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

*Deposits* -- Deposits include demand deposits, savings accounts, NOW accounts, and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

*Advances from Borrowers for Taxes and Insurance* -- The carrying amount approximates fair value.

*Federal Home Loan Bank Advances* -- Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

*Commitments to Originate Loans, Letters of Credit and Lines of Credit* -- The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

## GREAT AMERICAN BANCORP, INC. SHAREHOLDER INFORMATION

### Stock Listing and Price Information

The Company's common stock is traded on the Over-the-Counter Bulletin Board under the symbol "GTPS.OB." At December 31, 2009, 512,200 shares of the Company's common stock were held of record by 213 persons or entities, not including the number of persons or entities holding stock in nominee or street name through various brokers or banks.

The following schedule shows the high and low bid prices for each of the quarters in the years ended December 31, 2009 and 2008:

<u>Quarter Ended:</u>	<u>High</u>	<u>Low</u>
March 31, 2008	33.00	31.05
June 30, 2008	33.50	33.00
September 30, 2008	33.50	31.00
December 31, 2008	32.50	26.50
March 31, 2009	32.00	27.00
June 30, 2009	31.00	27.00
September 30, 2009	31.25	30.00
December 31, 2009	32.00	31.00

At December 31, 2009 the closing price of a common share was \$31.50. This information was provided by the Over-the-Counter Bulletin Board. Such prices do not necessarily reflect retail markups, markdowns, or commissions. During the years ended December 31, 2009 and 2008, the Company declared dividends as follows:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount</u>
February 11, 2008	March 15, 2008	April 1, 2008	.12
May 12, 2008	June 15, 2008	July 1, 2008	.14
August 11, 2008	September 15, 2008	October 1, 2008	.14
November 10, 2008	December 15, 2008	January 2, 2009	.14
February 9, 2009	March 13, 2009	April 1, 2009	.14
May 11, 2009	June 15, 2009	July 1, 2009	.14
August 10, 2009	September 15, 2009	October 1, 2009	.14
November 9, 2009	December 15, 2009	January 4, 2010	.14
			<u>\$ 1.10</u>

## **Investor Information**

Stockholders, investors and analysts interested in additional information may contact:

Jane F. Adams  
Chief Financial Officer  
Great American Bancorp, Inc.  
1311 S. Neil Street  
Champaign, IL 61820

Company website: [www.greatamericanbancorp.com](http://www.greatamericanbancorp.com)

## **Corporate Counsel**

Locke Lord Bissell & Liddell LLP  
111 S. Wacker Drive  
Chicago, IL 60606-4410

## **Independent Auditors**

McGladrey & Pullen, LLP  
1806 Fox Drive  
Champaign, IL 61820

## **Annual Meeting of Stockholders**

The Annual Meeting of Stockholders of Great American Bancorp, Inc. will be held at 9:30 a.m. Tuesday, April 20, 2010 at:

First Federal Savings Bank of Champaign-Urbana  
1311 S. Neil Street  
Champaign IL 61820

Shareholders are welcome to attend.

## **Stock Transfer Agent and Registrar**

Inquiries regarding stock transfer, registration, lost certificates or changes in name and address should be directed to the transfer agent and registrar:

Computershare Trust Company, N.A.  
P.O. Box 43070  
Providence, RI 02940-3070  
(800) 962-4284  
<http://www.Computershare.com>

## **GREAT AMERICAN BANCORP, INC. DIRECTORS AND EXECUTIVE OFFICERS**

### **Great American Bancorp, Inc. Directors and Executive Officers**

**Ronald E. Guenther**, Chairman of the Board of the Company  
Athletic Director, University of Illinois

**Clinton C. Atkins**, Director  
Chairman of Hobbico, Inc., a manufacturer and distributor of hobby products, President of T.A.G. Residential, Inc. and President of T.A.G. Ashland Park, Inc., both real estate concerns.

**Ronald Kiddoo**, Director  
Chairman of the Board and Chief Investment Officer, Cozad Asset Management, Inc., an investment advisory concern.

**George R. Rouse**, Director  
President and Chief Executive Officer of the Company

**Jack B. Troxell**, Director  
Owner and President of C-U Liquors LTD, retail beverage stores.

**Jane F. Adams**  
Chief Financial Officer, Secretary and Treasurer of the Company

### **First Federal Savings Bank Directors and Executive Officers**

**Jack B. Troxell**, Director and Chairman of the Board of the Bank\*  
Owner and President of C-U Liquors LTD, retail beverage stores.

**Craig Bazzani**, Director  
Senior Advisor to the President, University of Illinois Foundation

**Ronald E. Guenther**, Director\*  
Athletic Director, University of Illinois

**John Z. Hecker**, Director  
Partner, Stipes Publishing, LLC, book publishing.

**Ronald Kiddoo**, Director\*  
Chairman of the Board and Chief Investment Officer, Cozad Asset Management, Inc., an investment advisory concern.

## **First Federal Savings Bank Directors and Executive Officers, Continued**

***Michael J. Martin***, Director

Director of Residential Development, T.A.G. Residential, Inc. and Vice President of T.A.G. Ashland Park, both real estate development concerns.

***George R. Rouse***, Director\*

President and Chief Executive Officer of the Bank

***Jane F. Adams***

Senior Vice President - Finance, Secretary-Treasurer of the Bank

***Ata M. Durukan***

Senior Vice President - Human Resources and Marketing of the Bank

***Mark D. Piper***

Senior Vice President - Operations of the Bank

***Melinda K. Piper***

Senior Vice President - Deposit Acquisitions of the Bank

***Paul D. Wilson***

Senior Vice President - Lending of the Bank

***Larry Grill***

Registered Representative  
Securities America, Inc.  
Member FINRA/SIPC

## **Park Avenue Service Corporation Officers**

***George R. Rouse***

President

***Jane F. Adams***

Secretary and Treasurer

## **GTPS Insurance Agency Officers**

***Patrick L. Rouse\****

President

***Gerald Cox***

Senior Vice President

\* Also Director of Park Avenue Service Corporation.